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A Comparative Study of Working Capital Management in Manufacturing and Service Sector

A Synopsys Submitted to Shri Vaishnav Vidyapeeth Vishwavidyalaya

In partial fulfillment for the award of Degree of DOCTOR OF PHILOSOPHY IN MANAGEMENT

By HANISH KUKREJA (1905PHDMB06511)

Under the Guidance of DR. SWATI OZA Assistant Professor, SVSM Shri Vaishnav Vidyapeeth Vishwavidyalaya Indore

Research Centre Shri Vaishnav School of Management SHRI VAISHNAV VIDYAPEETH VISHWAVIDYALAYA Ujjain Road, Indore-453111, M.P. (2020)

Area of Research Corporate finance, a division of finance, deals with how corporations deal with sources of funds, capital structuring, and investment decisions. Corporate finance is primarily concerned with maximizing shareholder value through long and short-term financial planning and the implementation of various strategies. Corporate finance activities range from capital investment decisions to investment banking.

Topic of Research The topic of this research is “A Comparative Study of Working Capital Management in Manufacturing and Service Sector”. This study focuses to find if there is any relation between the working capital management and the profitability and the impact of Advertisement expenses on the profitability of the company.

Introduction (Based on Review of Literature)

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The recent economic downturn of 2020 has brought renewed focus on working capital policies. In this research the

the last 10 year period. We find the impact of

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The current examination is an endeavor to explore the connection between Receivables the board and benefit and furthermore to discover the effect of commercial costs on the profitability of Indian assembling and administration segment by making a correlation among them. According to Armstrong and Kotler, 2000, advertising is "paid promotion of ideas, goods or services". Lamb and McDaniel, 2000 (referred to by Richard and Curran, 2002, p.65), further added to it that it is an "unoriginal, single direction mass correspondence about an item or association, paid for by an advertiser."

Academicians believe that advertising drive a positive buying attitude and have the capability of capturing the customer's attention (Riaz et al., 2015). There are 2 different schools of thoughts; one says that advertising creates false impression of the product or service on the customer and increases the entry barriers for competitors. The other says, advertisement spreads more information about the product and services and makes distribution of profits more competitive (Greuner et al., 2000).

Simester et al., 2009, added that in the short run, advertising without any doubt increases sales, but the long-run result is not always that impactful. Although, the benefits of advertising cannot be neglected as advertising is still many big brands spend a lot of amount in it and thus advertising remains one of the biggest expenditure for many well known organizations. For example, a big brand like Alibaba had a 50% rise in the promotional expenses. Other big names like Coca Cola and Mc Donald also ranked among the companies with very high promotional expenses and costs.

Lee et al., 1996, discovered a two-way causal connection among Advertising and sales. Advertising is accepted to impact the customer's mentality and taste, which in the long run adds to the buy conduct of purchasers. On the other hand, the other heading of the causality asserts that deals and benefits have the way to decide Advertising spending plan. This causality was then reprimanded in the discoveries of Leach, 1996 (referred to by Chowdhury, 2017), where the previous causal relationship was demonstrated, yet the last mentioned, for example deals causing advertising use, was dismissed. Some other examination, for example, the one done by Elliot, 2002 (referred to by Linson and Thomas, 2016), recommends there is a significant impact of Advertising on deals turnover in the food business; and a quantifiable impact in the cleanser fabricating organizations as featured by Linson and Thomas, 2016. Thus, Kambar (2002) and Sundarsan (2007) gave proof of a positive relationship in setting of various organization sizes.

Singh and Pandey (2008) studied about the company Hindalco and found out a relation between working capital management and the return on equity. They chose a time period from 1991 to 2008. They concluded there is a relation between the liquidity and the performance of the company. Mittal et al (2010) studied 2 different companies with same sector but different working capital management. The author mentioned that the way to organize the working capital management of both the companies was completely different, still there existed a correlation between the WCM of the two. This led to the result the in spite of different companies and different management, companies in the same sector somehow has the similar WCM. Bhunia and Khan (2011) did and experiment on 200 plus companies in the country and found that there exist no relation between WCM and profitability. However it sensible think about the relation, but the changes in WCM had no effect on the company's profit. Pimplapuri, Kulkarni (2011) also did a similar experiment and tried to discover the relationship between working capital and company's profit. They selected duration of 5 years from 2006 to 2011. The author concluded that lower current assets leads to higher profits and higher current assets result in lower profit of the firm. Desai and Joshi (2011) did a survey where they found out that cash conversion cycle is the most important element of working capital. There motive was to find the linkage between working capital and profitability. They also concluded that there was an inverse or negative relation between the two. Profit of the firm was found to be decreasing when we increase the cash conversion cycle.

Gaps in previous Researches Literature of finance talks about different aspects of working capital administration in various ways. A few researchers contemplated the effect of ideal method of overseeing accounts receivables or accounts payable, while others played out a similar exploration for inventory management and cash conversion cycle; however these couldn't clarify the definite relation between working capital management, advertisement expenses and profitability of the company.

Keeping all these disparities at the top of the priority list, the current study is planned with the aim of finding out whether there exists a positive, negative or no connection between working capital management and profitability. In a wide range of associations (large, medium or small), firms need to deal with their working capital in an ideal manner; and the most ideal method of overseeing working capital is that which prompts improving their possible profitability.

Additionally, the majority of the researchers has utilized either cash conversion cycle or net trade cycle as the designating boundary for working capital proficiency, and just a single variable, for example returns on resources, for productivity measure. Productivity position is a superior pointer of any sector development. Additionally, fabricating area benefits rely on better working capital administration since it contains practically 50% of the advantages of manufacturing concerns. Also, the sectors we are focusing upon have not yet been touched by previous studies in the similar context.

Objectives of the Study

This research aims to understand the effect and impact of advertisement cost and working capital management on firms' profitability. 1. To study the effect of variations in account receivable management on the firm’s profitability

2. To study the effect of variations in inventory management on the firm’s profitability
3. To study the effect of variations in liquidity management on the firm’s profitability
4. To study the effect of variations in advertisement cost management on the firm’s profitability.

Research Methodology

The Study The following are the research hypothesis: H0 – Profitability of the firm is not affected by account receivable management H1 – Profitability of the firm is affected by account receivable management H0 - Profitability of the firm is not affected by inventory management H1 - Profitability of the firm is affected by inventory management H0 - Profitability of the firm is not affected by liquidity management H1 - Profitability of the firm is affected by liquidity management H0 -

Profitability of the firm is not affected by advertisement cost management H1 - Profitability of the firm is affected by advertisement cost management

The Design The study includes the following indicators of working capital management: The research will consist of Independent variables: 1. Credit sales 2. Inventory 3. Cash and Cash Equivalents 4. Advertisement Cost

And dependent variables: 1. Profitability of the Firm

The Sample The sampling will be done using the secondary data from the annual reports of the companies. The sampling method used is “Stratified Random Sampling”. The sample will be 5 companies each from the 2 sectors selected. The sectors on which this study will be done are “Financial Sector” which is a service sector and “Automobile Sector” which belongs to manufacturing sector. Five companies will be selected from each sector. The following are the company names which will be the sample for the research: • Automobile Sector o Maruti Suzuki (4 wheeler) o Ashok Leyland (4 wheeler) o Tata Motors (4 wheeler) o Hero Motocorp (2 wheeler) o Eicher Motors (2 wheeler)

• Financial Sector o HDFC Bank (Private Bank) o SBI (Public Sector Bank) o ICICI Lombard (Insurance) o Bajaj Finserv (Credit and Finance) o Axis Mutual Funds (AMC)

The Tools • For data collection, annual reports from the companies' respective websites will be used. No third party website shall be referred as the data needs to be very reliable. • For data analysis, financial ratios will be used to compare the performance of different companies. The comparison of the final result will be done through multiple Regression analysis. Chapter Outline for Research Thesis

• Chapter 1 — Introduction o Conceptual Framework o Rationale of Study (Gaps) o Objectives of study • Chapter 2 — Review of Literature • Chapter 3 —Research Method o The Study o The Design o The Sample o The Tools • Chapter 4 — Results • Chapter 5 — Discussion • Chapter 6 — Summary o Summary o Conclusions o Suggestions • Chapter 7 — Implications • References • Appendices

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